



HF 2445– Casino Promotional Play Taxation (LSB6033HV)

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Fiscal Note Version – New

Description

House File 2445 establishes a limit on the state wagering tax collected on adjusted gross receipts (AGR) for redeemed promotional play credits at Iowa casinos by amending the method of calculating the wagering tax on gambling receipts as provided in Iowa Code section **99F.11**. The bill defines “adjusted gross receipts” as gross receipts less winnings paid to wagerers, not including promotional play receipts received after the date in any fiscal year that the Racing & Gaming Commission (IGRC) determines that the wagering tax on promotional play receipts exceeds \$25.82 million. The bill defines “promotional play receipts” as the total wagered on gambling games with tokens, chips, electronic credits, or other forms of cashless wagering provided by a licensee without an exchange of money.

Background

Current law requires the wagering tax to be calculated on the total amount of gross receipts reduced by paid-out winnings, or total AGR. Redeemed promotional play revenue is included in the calculation of AGR. Current gambling revenues are taxed by the state based on AGR received from gambling games. The first \$1.0 million of gross receipts are taxed at a rate of 5.0% and the next \$2.0 million of gross receipts are taxed at a rate of 10.0%. The tax rate imposed on gross receipts that exceed \$3.0 million is calculated on an individual fiscal year basis as follows:

- Licensees of a gambling entity with a racetrack enclosure claiming AGR of \$100.0 million or more are taxed at a rate of 24.0%.
- All other licensees are taxed at a rate of 22.0%.

According to the Revenue Estimating Conference (REC) held on March 16, 2016, total wagering taxes remitted to the state for FY 2016 are estimated to be \$288.8 million. For FY 2017, the total wagering taxes remitted are estimated to be \$291.7 million.

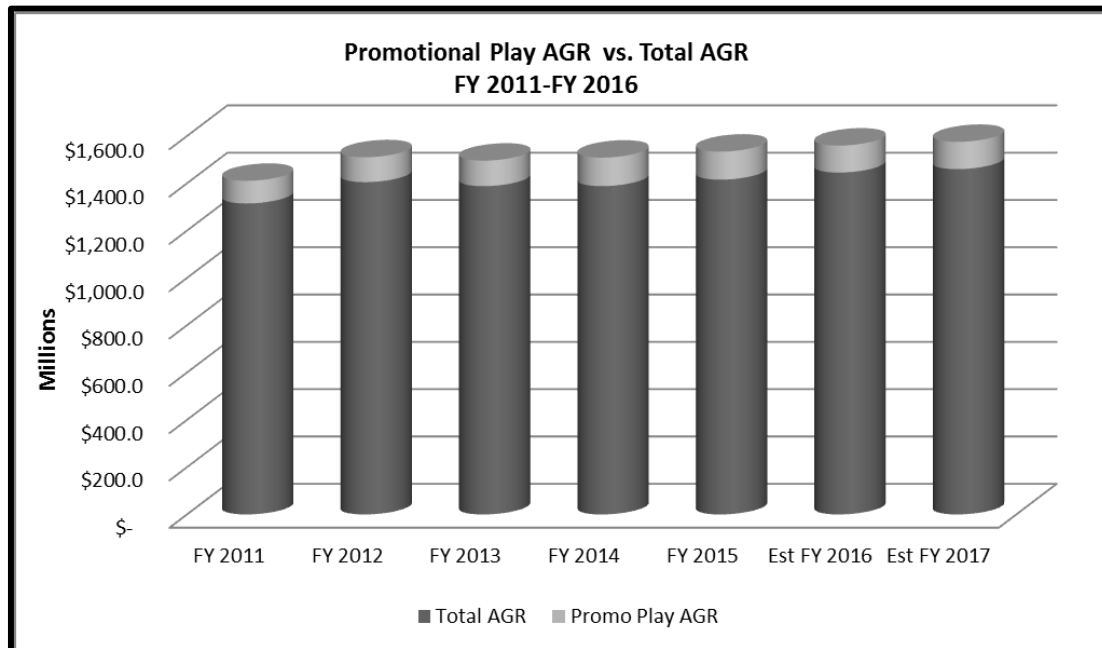
There are currently 19 gambling entities operating in Iowa. Of these 19 entities, two are taxed at 24.0% and 17 are taxed at 22.0%. The distribution of the taxes collected on the total AGR of the 19 gambling entities is as follows:

- 20.0% to 22.0% to the State of Iowa for deposit in various funding sources, including \$55.0 million to the Debt Service Reserve Fund (IJOBS Bond), \$3.8 million to the Federal Subsidy Holdback Fund, \$15.0 million to the Vision Iowa Fund, \$66.0 million to the Skilled Worker Job Creation Fund, and the remainder to the Rebuild Iowa Infrastructure Fund (RIIF).
- 1.0% to the city and county where the casino is located. The percentage is split evenly between the county and the city.
- 0.8% is deposited in the County Endowment Fund; and 0.2% is divided equally between the RIIF and the Iowa Economic Development Authority (IEDA) for tourism programs.

Assumptions

- The AGR of Iowa's 19 casinos is estimated to be \$1.445 billion in FY 2016 and \$1.460 billion in FY 2017. These estimates are based on the March 16, 2016 meeting of the REC.

- Redeemed promotional play receipts typically account for approximately 7.9% of total AGR. This percentage is based on a five-year average for the period of FY 2011 to FY 2015. During that period, the total promotional play percentage fluctuated between 7.0% and 8.7%. The following chart depicts promotional play receipts as a percentage of total AGR.



Source: Legislative Services Agency (LSA), Iowa Racing and Gaming Commission (IRGC)

- The wagering tax limit of \$25.8 million is based on the assumption that total promotional play receipts will remain approximately 7.9% annually for FY 2016 and FY 2017.
- The wagering tax collected on promotional play receipts will likely remain approximately \$25.8 million annually.
- Assuming that [HF 2445](#) were to be enacted, casinos may make the business decision to increase the amount of promotional play issued since it will not be taxed after the limit of \$25.8 million has been reached. If additional credits are issued and subsequently redeemed, this could potentially increase the total AGR and the industry's profit.

Fiscal Impact

[House File 2445](#) will have no impact on the State General Fund and is expected to have little to no fiscal impact on the RIIF in FY 2016 and FY 2017. The fiscal impact for subsequent years cannot be determined.

Sources

Iowa Racing and Gaming Commission (IRGC)
 Legislative Services Agency (LSA)
 Department of Management (DOM)
 Revenue Estimating Conference (REC)

/s/ Holly M. Lyons

March 29, 2016

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.